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July 21, 2006

VIA ELECTRONIC FILING AND OVERNIGHT DELIVERY

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 06-36

Dear Ms. Cottrell:

Enclosed for filing, on behalf of Bay State Gas Company ("Bay State"), are Bay State's responses to the following Information Requests:

AG 2-1 AG 2-2 AG 2-3 AG 2-8 AG 2-10

AG 2-13 AG 2-14

The remaining responses will be filed as soon as they are available. Please do not hesitate to contact me if you have any questions.

Very truly yours,

Patricia M. French

cc: Julie Howley Westwater, Esq., Hearing Officer
Jamie M. Tosches, Esq., Office of the Attorney General
Service List (Electronic Service per the Ground Rules)

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
SECOND SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL
D.T.E. 06-36

Date: July 21, 2006

Responsible: Joseph A. Ferro, Manager Regulatory Policy

AG 2-1: Please refer to Exhibit ("Exh.") AG-1-15. "Cost allocation methodology" means the method of assigning costs to specific customer classes based on cost causation principles, *i.e.* "that cost responsibility must follow cost incurrence." [1] *See* D.T.E. 98-32-B at 31; *Bay State Gas Company*, D.T.E. 02-75-A, at 5. Please respond to the original question.

[1] For example, the Company uses cost allocation methods to develop its class specific Cost of Gas Adjustment ("CGA") rates for recovery of capacity costs from sales customers.

RESPONSE: The data referred to in Exh. BSG-1 at 11, lines 3-10, was observed and subsequently used to establish a reasonable percentage of grandfathered load as the level of resource needed to be available to help protect against disruption of service to the Company's firm sales and non-grandfathered customers in the event of grandfathered customers overtaking on a Critical (or OFO) Day. This percentage of grandfathered customers' design day load of 30% was first used to determine the level of capacity costs associated with this level of reliability resources, and then such costs have been assigned directly to the group of customers causing the need for the Company to incur these costs. The charging for this capacity that is needed to be available on design day, at the average system cost of capacity, is ultimately deducted from the total system capacity costs, similar to deducting the capacity assignment revenues associated with the mandatory assignment of capacity to Suppliers on behalf of the non-grandfathered customers.

For deriving Gas Adjustment Factors through the CGA mechanism, which is performed on a forecast basis, the peaking resources would be reduced by 30% of grandfathered design day before running the dispatch model, which in turn feeds the CGA model. Through the reconciliation process, the CECRC revenues would be credited to actual system capacity costs, reducing the actual capacity costs charged to sales customers.

In sum, and as indicated in response to AG-1-15, the referenced data is used to allocate costs to the group of customers causing the Company to incur such costs insofar as 30% of grandfathered design day determines

the costs charged only to grandfathered customers, as such costs are credited to the system capacity costs charged to sales customers.

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AG 2-2: Please provide a detailed outline of Bay State Gas Company's ("Bay State" or "Company") CGA cost allocation methodology for allocating the cost of additional transmission capacity to serve grandfathered customers. If the Company cannot do so, explain why not?

RESPONSE: The response below first provides a description of the Bay State CGA cost allocation methodology and then an explanation of how capacity associated with 30% of grandfathered load is treated in the CGA process.

Bay State Gas Company's CGA Cost Allocation Methodology:

Bay State's CGA cost allocation methodology uses a normal weather year's monthly dispatch of supplies and utilization of capacity to allocate system resources and the associated capacity costs to each rate class (including non-grandfathered transportation classes). The resulting assigned costs to each rate class are aggregated to high load factor (low winter) and low load factor (high winter) class groupings. The allocation of resources and associated costs are based on how each rate class's monthly demand during an annual period fits into the Company's load duration curve. The load duration curve, and customers' demand, is separated into two portions; base load and "remaining load".

The base load portion of each rate class's demand is satisfied by, and thus assigned, the Company's base load resources, including the associated capacity costs. The base load resources typically consist exclusively of long-haul pipeline resources. The "remaining load" is served by a combination of resources including pipeline not used to satisfy base load, underground storage, winter service supplies, peaking supplies and on-system LNG and propane

production. The capacity costs associated with these resources are assigned to each customer class based on each class's percentage of design day demand less the base load use (on design day) to total system remaining design day demand. The seasonal allocation of these capacity costs are determined by assigning the capacity costs to months using a Proportional Responsibility (PR) allocator. The PR derives monthly percentages based on the utilization or sendout of the "remaining load" resources in each month.

Treatment of Capacity re: 30% of Grandfathered Load:

Bay State Gas Company's CGA cost allocation methodology would be indirectly applied to the additional capacity to meet the reliability need of 30% of grandfathered design day. Prior to the allocation of capacity costs to the rate classes through the CGA model, and for the purpose of modeling the utilization of resources to meet firm requirements, the Company's dispatch model would reflect that a portion of the capacity resources needed to meet this requirement were not available to meet firm demand. The specific costs of these resources "set aside" for this reliability requirement would be included in the CGA model, while the CECRC revenues would be credited to system capacity costs before the resulting net capacity costs are allocated to the rate classes, just as capacity assignment and capacity release revenues are credited in the CGA calculation. Thus, the CGA cost allocation methodology would be employed to allocate the CECRC revenues to the rate classes to derive the class unit demand charges.

The CGA cost allocation methodology produces the unit demand charge to the high load factor and low load factor classes that is consistent with the assignment of capacity and associated costs charged to non-grandfathered customers. On the other hand, the capacity requirements for 30% of grandfathered design day load, would not be assigned to suppliers, but rather would be reflected in the Company's overall portfolio planning.

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AG 2-3: State the reason(s) for the Company's omission of a cost allocation methodology from its proposal to address the risk of grandfathered overtakes.

RESPONSE: As discussed in responses to AG 2-1 and AG 2-2, the basis for the Company's cost allocation methodology was using the MDQ associated with 30% of grandfathered design day load to derive the capacity costs assigned to the grandfathered customers. In addition to this volumetric allocator, or billing determinant, the unit cost assigned was the average cost of system capacity because of the nature of how this reliability requirement fits into and is part of the Company's overall integrated resource planning as stated in responses to SPR 1-12 and SPR 1-14, as well as, in Hess 1-6 and Hess 1-18. More specifically, because the availability of the capacity associated with the risk of grandfathered overtakes is determined through its continuous and long-term portfolio planning through its Forecast and Supply Plan, the impact that this risk requirement has on the portfolio, and the associated costs, are subject to continuous change.

Conversely, capacity costs allocated through the Company's Cost of Gas methodology relies on the modeling of dispatched resources to meet firm sales and non-grandfathered demand. The requirement of 30% of grandfathered load is not being served, but rather results in the Company needing to have resources available on a Critical Day in the event of system under-deliveries. Therefore, determining another allocation methodology to allocate capacity costs to address the risk of grandfathered overtakes would seem to be somewhat arbitrary and/or subjective as compared to using the system average cost of capacity.

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AG 2-8: Please refer to the response to Exh. AG-1-10. Provide all CECRC calculations based on actual 2005/06 peak CGA costs and include all supporting workpapers, calculations, and assumptions.

RESPONSE: Please see Attachment AG-2-8-1 for the CECRC calculated rate using the system average unit capacity cost based on actual capacity costs for the months of November 2005 through June 2006, and July 2006 through October 2006 capacity costs at the latest June 2006 capacity rates. Note that, because the CECRC is based on annual capacity costs, the Company interpreted that the question is requesting to use actual capacity costs from the beginning of the 2005/06 peak period through October 2006. Also note that, since most capacity rates are the same from month-to-month, the June 2006 through October 2006 capacity costs should be quite similar to the ultimate actuals.

See Attachment AG-2-8-2 for the detail of the annual capacity costs based on the monthly actuals. Also see response to SPR-1-11 for the support of all other data – (a) grandfathered Design day, (b) total system design day, (c) Capacity Release / Off-system Sales revenues, and (d) annual grandfathered throughput.

Attachment AG-2-8-1

Capacity Exempt Customer Reliability Charge
Example Calculation

Row	Description		Amount		Calculation
(1)	Capacity Exempt Customer Peak Day		58,846	Dth	
(2)	**Actual** Annual Unit Capacity Cost	**$**	**130.97**	per Dth	
(3)	Factor		30%		
(4)	Reliability Costs	$	2,312,065		(1) x (2) x (3)
(5)	Capacity Release / OSS Margin Revenues	$	(6,407,187)		
(6)	Total System Design Day		504,151	Dth	
(7)	Capacity Release / OSS Credit	$	(747,866)		(5) x ((1) / (6)
(8)	Prior Period Under / (Over) Recovery	$	-		
(9)	Total CECRC Allowable Costs for Period	$	1,564,199		(4) + (7) + (8)
(10)	Capacity Exempt Customer Throughput (Therms)		86,722,280		
(11)	CECRC Charge per therm	**$**	**0.0180**		(9) / (10)

Bay State Gas 2005-2006 **Attachment AG-2-8-2**
Total Portfolio
Demand Costs - Based on monthly actuals from November 05 through June 06, and July - Oct 06 @ June 06 rates

Transportation	Contract	Rate Schedule	Contract Expiration	Days	MDQ	Monthly Demand	No. Invoices	Annual Demand Cost
Brockton Pipeline								
Algonquin	93001EC	AFT-1(F-1/WS-1)	10/31/2012	365	51,632	$5.9771	12	$3,703,316
Algonquin	93201AC	AFT-1 (F-2 & F-3)	10/31/2012	365	5,489	$5.9771	12	$393,700
Algonquin	93401	AFT-1 (F-4)	10/31/2012	365	5,690	$5.9771	12	$408,116
Algonquin	93001F	AFT-1 (AFT-2)	10/31/2012	365	18,584	$6.1138	12	$1,363,426
Algonquin		AFT-1(F-1/WS-1)	10/31/2012	365	48,000	$9.2497	10	$4,439,856
Tennessee	41098	FT-A	10/31/12	365	18,733	$6.4140	12	$1,441,842
Algonquin (Hubline)	510066	FT-A	10/31/2012	365	20,000	$6.9958	12	$1,678,992
Texas Eastern LH	800462	CDS	10/31/12	365	36,369	$10.7550	12	$4,693,783
Tetco STX	800462	CDS	10/31/12	365	7,597	$6.5898	12	$600,753
Tetco ETX	800462	CDS	10/31/12	365	4,389	$2.1890	12	$115,290
Tetco WLA	800462	CDS	10/31/12	365	8,265	$2.8260	12	$280,283
Tetco ELA	800462	CDS	10/31/12	365	15,758	$2.3750	12	$449,103
Transco	6548	FT	06/01/08	365	1,254	$2.9543	12	$44,456
Iroquois	R182001	RTS-1	10/31/2012	365	28,507	$6.7908	12	$2,323,024
Tennessee	39741	FT-A	03/31/05	365	4,081	$4.9300	12	$241,432
Tennessee	5291	FT-A	03/31/05	365	6,171	$4.9300	12	$365,076
Tennessee	5173	FT-A	10/31/08	365	12,748	$15.6538	12	$2,394,656
Tennessee	46313	NET 284	02/13/12	365	6,170	$11.9647	12	$885,866
Tennessee	31855	NET 284	10/31/12	365	9,774	$7.1706	12	$841,025
Tennessee	42427	FT-A	03/31/05	365	17,000	$3.1600	12	$644,640
Tennessee	42426	FT-A	03/31/05	365	17,000	$2.7360	12	$558,144
Granite	93102F	FT-1	10/31/2003	365	21,400	$1.6666	12	$427,983
Granite	93101F	FT-NN	10/31/2003	151	25,600	$3.9500	5	$505,600
PNGTS	1997-001	FT	03/31/19	365	4,900	$25.8542	12	$1,520,225
PNGTS	1997-002	Negotiated FT	03/31/19	151	25,600	$49.12	5	$6,287,733
TOTAL								$36,608,320

Storage	Contract	Rate Schedule	Contract Expiration	Days	MDWQ	Capacity	Monthly Demand (1)	Monthly Demand (2)	No. Invoices	Annual Demand Cost
Dominion	600002	GSS-TE	3/31/2006	98	14,758	1,441,753	$1.8823	$0.0145	12	$584,213
Texas Eastern	400502	FSS-1	4/30/2012	60	1,056	63,360	$0.8953	$0.1293	12	$19,538
Texas Eastern	400193	SS-1	4/30/2013	70	22,819	1,588,950	$5.4646	$0.1293	12	$1,701,812
Algonquin	94501	AFT-1 (AFT-5)	10/31/2014	365	14,758		$12.6265		12	$2,236,103
Algonquin	93001EC	AFT-1 (AFT-5)	10/31/2014	365	23,875		$5.9771		12	$1,712,439
Texas Eastern	800414	CDS	10/31/12	365	1,056		$5.2060		12	$65,970
Texas Eastern	800382	FT-1	10/31/09	365	4,235		$5.6510		12	$287,184
National Fuel	O10537	FSS	3/31/2004	60	10,000	1,100,000	$2.1556	$0.0432	12	$828,912
National Fuel	N10670	FST	3/31/2004	60	10,000		$0.4280	$0.0000	12	$51,360
Tennessee	5178	FS-MA	10/31/2003	62	19,755	1,222,594	$1.1500	$0.0185	12	$544,035
MCN	NA	NA	3/31/2008	151	16,000	2,416,000	$17.6480	$9.9958	5	$3,331,034
Tennessee	5293	FT-A	10/31/08	365	12,547		$5.8900		12	$886,822
Tennessee	5196	FT-A	03/31/04	365	15,375		$5.8900		12	$1,086,705
PNGTS	1997-002	Negotiated FT	03/31/19	151	15,000		$49.12		5	$3,684,219
Granite	93101F	FT-NN	10/31/2003	151	15,000		$3.9546		5	$296,595
TOTAL										$17,316,939

Peaking	MDQ	No. Invoices	Annual Demand Cost
On-system Brockton			$2,730,992
On-system Sp/LW			$3,358,383
TOTAL			$6,089,375

	MDQ	Avg Cap. Cost	
Total Available Capacity	458,243	$ 130.9668	$60,014,635

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AG 2-10: Please refer to the response to Exh. AG-1-19. Please provide a complete, detailed, and accurate explanation of the phrase "all its requirements."

RESPONSE: The categories of "all its requirements" referenced in response to AG-1-19 was listed in a parenthetical as "firm sales, non-grandfathered and capacity associated [with] reliability needs in connection with grandfathered load". All of the Company's requirements entail its obligation to provide reliable service to all its firm customers. To meet this obligation, the Company needs available resources every day of the year, particularly on design day. Thus, the Company needs to have: (1) adequate capacity and supply to satisfy firm sales design day load, (2) capacity to assign to suppliers on behalf of non-grandfathered customers to meet their design day load, and (3) to ensure that those resources are solely used to meet firm sales and non-grandfathered customers' design day load, and thus are sufficient, on a Critical Day, a certain level of additional resources available in the event that the Company experiences under-deliveries on its system due to the grandfathered load on the system. The Company has assessed that 30% of grandfathered design day load reasonably addresses system reliability.

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AG 2-13: Please refer to the response to Exh. DTE 1-13. Please state whether the risk associated with overtakes would reduce if all grandfathered customers, or those with consumption levels greater than a set level, had to use daily metering. Please provide a detailed response.

RESPONSE: No, if all grandfathered customers were required to take Daily Metering (as opposed to Non-daily Metering) service, the risk associated with overtakes would not be reduced. Daily metering would only allow the Company, after the fact, to determine a customer's specific daily gas use, and would still not enable the Company to determine any overtake of that customer. To determine if that customer was the cause of the overtake, the Company would need the customer, or the Supplier on behalf of the customer, to provide the corresponding daily confirmed nomination. Currently, Suppliers are allowed to nominate on an aggregated basis by Supplier Daily Metered pool. Moreover, even if the Company had the ability to determine customer-specific overtakes, the Company would only find out of such an overtake after the day, and thus too late to ensure system reliability. (See also responses to DTE 1-13, DTE 1-15 and DTE 1-19.)

A daily metering requirement coupled with a requirement to provide nominations by each specific daily metered customer would only provide the Company with customer-specific overtake data.

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AG 2-14: Please refer to the response to DTE-1-13. Please state whether the risk associated with overtakes would reduce if all grandfathered customers, or those with consumption levels greater than a set level, had to use daily metering and all suppliers had to nominate for each daily metered customer on a customer specific basis. Please provide a detailed response.

RESPONSE: Please see response to AG 2-13.